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NOMINATION OF S. BRUCE SMART, JR.

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

THE NOMINATION OF S. BRUCE SMART, JR., TO BE UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE

JUNE 26, 1985

Printed for the use of the Committee on Finance

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NOMINATION OF BRUCE SMART TO BE UNDER SECRETARY OF COMMERCE

WEDNESDAY, JUNE 26, 1985

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 9 a.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth presiding.

Present: Senators Danforth, Chafee, Grassley, Bentsen, Moynihan, and Baucus.

[The press release announcing the hearing follows:]

[Press Release No. 85-046]

COMMITTEE ON FINANCE SETS NOMINATION HEARING ON S. BRUCE SMART

Senator Bob Packwood (R-Oregon), Chairman of the Senate Committee on Finance, announced today the scheduling of the nomination hearing for S. Bruce Smart Jr. as Under Secretary of Commerce for International Trade.

The nomination hearing is set to begin at 9 a.m. on Wednesday, June 26, 1985.

Smart currently is chairman and chief executive of the Continental Group Inc. at Stamford, Conn.

His nomination hearing will precede the Committee on Finance's Wednesday morning hearing on research and development credits and venture capital formation.

Senator DANFORTH. Senator Packwood is on the floor of the Senate this morning and is probably not going to be able to be present either for Mr. Smart's confirmation hearing or for the subsequent hearing on the R&D tax credit. And he asked me to convey his apologies to you, Mr. Smart, and to the other witnesses this morning.

We are happy to have you here. You have been nominated for Under Secretary of Commerce for International Trade. And I see Senator Weicker is here with you and we are happy to have Senator Weicker here.

STATEMENT OF HON. LOWELL P. WEICKER, A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. Good morning, Senator Danforth. It gives me great personal pleasure to introduce Bruce Smart to the Finance Committee today. Mr. Smart has a record both in business and service to his country that qualifies him well for the position of Under Secretary for International Trade in the Department of Commerce.

He was until recently chairman of the Continental Group of Stamford, CT, a company where he has been employed in a variety of capacities for more than 30 years. In addition to directorships of several major corporations, Mr. Smart has been with such organizations as the American Enterprise Institute Conference Board and the Council on Foreign Relations.

After graduating cum laude from Harvard, with a degree in engineering sciences, Mr. Smart received an advanced degree in civil engineering from Massachusetts Institute of Technology, and during the Second World War he rose from private to first lieutenant, earning two battle stars in the Asiatic and Pacific theaters.

Mr. Chairman, I am heartened by this nomination at this time, a time of great difficulty, as you well know, in achieving a healthy balance of trade. The nomination of Bruce Smart reflects a commitment by the administration to reach out for bright and aggressive managers with genuine experience, and the nomination also reflects Mr. Smart's dedication to public service, continuing a long tradition of Connecticut activism.

Speaking personally, I have known Bruce for many years. I think very highly of him, and I truly believe that in this situation the administration has gotten the best man for the job. Bruce Smart is not a political hack, which is what the situation demands right now. Bruce Smart is somebody who is tough and who is experienced. And he is a very decent human being.

Thank you very much.

Senator DANFORTH. Senator Weicker, thank you very much for your statement. That is a very high praise, Mr. Smart.

Do you have your wife with you?

Mr. SMART. Yes; I do.

Senator DANFORTH. Would you care to introduce her?

Mr. SMART. Yes. Edie.

Senator DANFORTH. It is good to have you here, Mrs. Smart. Congratulations to you, too. Condolences, I suppose. Your husband will be traveling a lot. [Laughter.]

Thank you very much.

Do you have any initial statement, Mr. Smart?

STATEMENT OF S. BRUCE SMART, JR., UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE—NOMINEE

Mr. SMART. Senator, thank you, first of all, for the pleasure and honor of appearing before the committee. I do have a written statement, which in the interest of time, I will submit for the record and summarize very briefly.

I think I should start by thanking Senator Weicker for undue praise and for handling a part of my introductory statement.

Continental, as many of you may know, used to be known as the Continental Can Co. It is a multinational organization with operations in 10 different countries. It would be classed as a Fortune 100 organization with sales of over $5 billion, 40,000 employees, and approximately 25 percent of its activities outside of the United States.

It, therefore, has given me considerable background in some of the areas of international trade that ITA is involved in. And as I

look forward to working there, with the pleasure of the Senate, I think that I will be able to bring some of that business experience to bear on the problems that the country faces.

I am heartened by the economic upturn that we have encountered—the recovery, the inflation rate reduction, the rate of job formation—and particularly by the determination of a lot of industries that I am familiar with to become competitive in a very difficult international marketplace.

On the other hand, I have been worried, along with other businessmen, for many months over the growing trade deficit and the problems that lie behind it: the high value of the dollar; the fact that our recovery has preceded that of other trading partners and therefore encouraged imports; the lack of competitiveness in some U.S. industries who have need to restructure or readjust to a new world; and, finally, the problem of access to markets for U.S. industries.

I believe strongly that our long-term security, including our military security, depends very heavily on having a strong economy over the future. I do not think that we can remain strong if we lose our industrial base or if we lose our economic preeminence in the world. There is no nation ready to take our role as the leader of the Free world if we fail to maintain it.

There is also a geopolitical importance to trade. With the permission of the chairman of the committee, and others, I visited several countries with Secretary Baldrige over the last several weeks, and it is clear that we have an opportunity to use trade to tilt nonaligned countries in favor of the United States and in support of U.S. objectives for world peace.

At the same time that we would use trade for these peaceful purposes, it is terribly important that we remain vigilant in the defense and the administration of our export control laws, because we cannot afford to allow sensitive technology to fall into the hands of those who would use it against us. We may never have a chance to look at the long term if we do not consider those matters that pose short-term danger.

My goal is to establish a strong working relationship within the administration and with the Congress and with American business, so that I can participate effectively in the resolution and the management of the very serious trade problems that confront us.

It is a wonderfully exciting opportunity for the next stage of what has been a very interesting career, and I look forward, Senator, to working with you and your colleagues in this process for the next several years. I think success depends on communications and mutual effort, and with that thought, I would like to turn this over to questions. Thank you very much.

[The prepared written statement of Mr. Smart and his résumé follow:]

STATEMENT OF S. BRUCE SMART, JR.

UNDER SECRETARY - NOMINEE

BEFORE THE

SENATE FINANCE COMMITTEE

JUNE 26, 1985

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM PLEASED TO APPEAR BEFORE THIS COMMITTEE AS THE SENATE CONSIDERS MY QUALIFICATIONS TO BE UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE.

EXCEPT FOR 5-1/2 YEARS IN THE ARMY, I HAVE SPENT MY WORKING LIFE AS A BUSINESSMAN, MOST RECENTLY AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF THE CONTINENTAL GROUP, A "FORTUNE 100" DIVERSIFIED MULTINATIONAL CORPORATION ENGAGED IN PACKAGING, FOREST PRODUCTS, INSURANCE, AND ENERGY.

SOME OF YOU MAY KNOW CONTINENTAL BETTER BY ITS FORMER NAME OF CONTINENTAL CAN COMPANY. IN 1983, ITS LAST FULL YEAR OF OPERATIONS BEFORE LAST NOVEMBER'S MERGER, CONTINENTAL'S SALES EXCEEDED 5 BILLION DOLLARS AND TOTAL ASSETS WERE IN EXCESS OF 4 BILLION DOLLARS.

CONTINENTAL EMPLOYED AROUND 40,000 PEOPLE, OF WHICH ABOUT ONE-QUARTER WERE PART OF OUR INTERNATIONAL OPERATIONS IN CANADA, WESTERN EUROPE, SOUTH AMERICA AND THE PACIFIC BASIN.

I HAVE ALSO BEEN A DIRECTOR OF FIVE INTERNATIONAL COMPANIES, AND ACTIVE IN MANY TRADE ASSOCIATIONS AND OTHER BUSINESS AND CIVIC GROUPS. I HOPE TO BRING THIS BACKGROUND TO THE CHALLENGES THAT ARE AHEAD IN HELPING AMERICAN BUSINESS TO COMPETE IN AN INCREASINGLY COMPLEX AND DIFFICULT INTERNATIONAL MARKETPLACE.

AS A BUSINESSMAN I HAVE BEEN GREATLY HEARTENED BY THE ECONOMIC RECOVERY, INCREASED NEW JOBS, THE REDUCED INFLATION RATE, AND THE RENEWED VIGOUR AND DETERMINATION TO BE COMPETITIVE THAT IS PRESENT IN MOST OF AMERICAN INDUSTRY. THERE HAVE BEEN MANY ACCOMPLISHMENTS IN THE LAST FEW YEARS, AND WE NEED TO BUILD ON THESE ACHIEVEMENTS.

AT THE SAME TIME, I HAVE BECOME INCREASINGLY WORRIED OVER OUR HUGE AND GROWING TRADE DEFICIT, AND THE IMPLICATIONS IT HAS FOR OUR NATION'S FUTURE IF NOT BROUGHT UNDER CONTROL. I KNOW FROM MY RECENT VISITS WITH MEMBERS OF THIS COMMITTEE THAT CONGRESS IS ALSO VITALLY CONCERNED ABOUT THIS URGENT PROBLEM.

I AM PURSUADED THAT THIS TRADE DEFICIT IS IN LARGE PART A SYMPTOM OF SEVERAL UNFAVORABLE CONDITIONS WE NEED TO ADDRESS.

FIRST AND FOREMOST, THE HIGH VALUE OF THE DOLLAR CLEARLY PENALIZES EXPORTS AND ADVANTAGES IMPORTS. THE STRENGTH OF OUR RECOVERY HAS ALSO EXPANDED THE MARKETS AVAILABLE TO IMPORTS, WHILE THE SLOWER GROWTH OR DEBT PROBLEMS OF SEVERAL TRADING PARTNERS HAVE RESTRAINED THE OVERSEAS MARKETS WE SERVE. THE WELL DESERVED U.S. REPUTATION AS AN ATTRACTIVE AND SAFE PLACE IN WHICH TO INVEST ALSO INCREASES THE DOLLAR'S ATTRACTIVENESS VERSUS OTHER CURRENCIES.

SECOND, SOME AMERICAN INDUSTRIES ARE FINDING IT HARD TO BE COMPETITIVE AGAINST RIVALS EMERGING ABROAD, PARTICULARLY IN NEWLY INDUSTRIALIZING COUNTRIES. WE NEED WISE POLICIES THAT PERMIT INDUSTRIES AFFECTED BY IMPORTS TO RESPOND TO NEW COMPETITION OR REDEPLOY RESOURCES WITHOUT CRIPPLING OUR INDUSTRIAL BASE, WITHOUT FRUSTRATING NECESSARY PERMANENT RESPONSES TO CHANGING TECHNOLOGY AND ECONOMIC CONDITIONS. WE ALSO NEED POLICIES THAT ASSIST WHEREVER POSSIBLE THOSE INDUSTRIES WHICH CAN BE SUCCESSFUL EXPORTERS, BUT WHOSE COMPANIES ARE NOT YET REALIZING THEIR INTERNATIONAL POTENTIAL.

FINALLY, WE NEED ACCESS TO OTHER COUNTRIES' MARKETS JUST AS WE HAVE GIVEN THEM ACCESS TO OURS. OUR PROSPERITY AND THEIRS HAS BEEN BUILT ON GROWING INTERNATIONAL TRADE, AND WILL CONTINUE TO DEPEND ON IT. WE CANNOT TAKE AMERICA'S PRESENT GREAT ECONOMIC STRENGTH AS AN IMMUTABLE GIVEN; TO PRESERVE IT OUR INDUSTRIES MUST BE ABLE TO COMPETE ON THE MERITS OF THEIR GOODS AND SERVICES, WITHOUT BEING IMPEDED BY TRADING RULES TILTED AGAINST THEM. WAYS MUST BE FOUND TO OPEN MARKETS FURTHER AND TO HALT THE CURRENT DRIFT TOWARDS WORLD-WIDE PROTECTIONISM.

SOLVING THESE PROBLEMS IS ESSENTIAL TO OUR NATION'S LONG-TERM ECONOMIC HEALTH AND SECURITY. WE CANNOT STAY MILITARILY STRONG IF WE BECOME ECONOMICALLY WEAK.

TRADE IS ALSO IMPORTANT IN A GEOPOLITICAL SENSE. OUR LONG-TERM ECONOMIC SUCCESS DEPENDS ON HAVING TRADING PARTNERS WHO ARE POLITICALLY STABLE, STABLE BECAUSE THEIR CITIZENS ENJOY A RISING QUALITY OF LIFE BASED ON GROWING DOMESTIC ECONOMIES WHICH UNDERGIRD POLITICAL FREEDOM. THROUGH MUTUALLY BENEFICIAL INTERNATIONAL TRADE WE CAN HELP NON-ALIGNED DEVELOPING COUNTRIES FIND COMMON GROUND WITH UNITED STATES OBJECTIVES.

REGARDLESS OF OUR DESIRE TO IMPROVE AND INCREASE TRADE FOR PEACEFUL PURPOSES, WE MUST ALSO BE VIGILANT IN THE PROTECTION OF SENSITIVE PRODUCTS AND TECHNOLOGIES WHOSE ESCAPE INTO HOSTILE HANDS COULD JEOPARDIZE US EVEN MORE QUICKLY THAN ECONOMIC FAILURE. VIGOROUS AND EFFECTIVE ENFORCEMENT OF EXPORT CONTROL LAWS IS ESSENTIAL.

IN SUMMARY, I AM HOPEFUL THAT OVER THE NEXT SEVERAL YEARS I CAN CONTRIBUTE TO THE RESOLUTION AND MANAGEMENT OF THE IMPORTANT TRADE ISSUES THAT FACE THIS COUNTRY. CONGRESS PLAYS AN ESSENTIAL ROLE IN THIS PROCESS, AND I LOOK FORWARD TO HEARING YOUR IDEAS AND SHARING MY THOUGHTS WITH YOU AS WE GO FORWARD.

THANK YOU.

INTENTIONAL
BLANK

S. BRUCE SMART, JR.

Home: 4375 Congress Street
Fairfield, CT 06430

Principal Occupation: Business Executive

The Continental Group, Inc. (formerly Continental Can Co.)

Chairman and Chief Executive Officer	1981-85
President and Chief Operating Officer	1975-80
Vice Chairman - U.S. Operations	1973-75
Exec. Vice President - Forest Products Operations	1969-73
Various Sales and General Management Positions	1953-68

The Permutit Company

Sales and Engineering	1947-51

Corporate Directorships:

*CCL Industries, Toronto, Ontario (Previously)
Celanese Corporation, New York, NY
Chase Manhattan Bank N.A., New York, NY
Chase Manhattan Corporation, New York, NY
Continental Group, Inc. (Previously)
GTE Corporation, Stamford, CT
*Life Insurance Company of Virginia, Richmond, VA (Previously)
Rexnord, Inc. (Previously)

(*Affiliates of Continental Group)

Business Related Associations:

The Business Council
The Business Roundtable (Formerly a member and member of Policy and Planning Committee)
American Paper Institute (Formerly a member & director)
The Can Manufacturers Institute (Formerly a member & director)

Non-Profit Activities:

American Enterprise Institute (Previously a trustee)
The Conference Board (Previously a trustee)
Council on Foreign Relations (Former member of Finance Committee)
National Executive Service Corps (Previously Director)
The Nature Conservancy (Governor and Vice Chairman)
Smith College (Trustee and Vice Chairman)

Military Service:

1st Lt., Corps of Engineers 1951-53
Pvt. to 1st Lt., AUS 1943-46
Asiatic-Pacific Theatre - 2 Battle Stars

Education:

Massachusetts Institute of Technology
SM-1947 (Civil Engineering)

Harvard College
AB Cum Laude 1945 (Engineering Sciences)

Milton Academy, Milton, MA., 1941

Member: Sigma Xi

Previously a Licensed Professional Engineer - New York State

Personal and Family Data:

Born: February 7, 1923 - New York, NY
Height: 6'3" Weight: 208

Father: S. Bruce Smart, Peru, Vermont
b. W. Pawlet, Vt., June 10, 1889

Mother: Beatrice Cobb Smart - deceased
b. Brookline, MA., March 24, 1892

Married: Edith M. Merrill September 10, 1949

Children: Edith M. (Mrs. Eugene M. Moore III)
William C. (m. Helene Rogers)
Charlotte M. (Mrs. Kevin Rogan)
Priscilla (Mrs. Peter Schwarzenbach)

5 Grandchildren

Miscellaneous:

Presently hold "Top Secret" security clearance.

Avocations: Sailing, Fishing, Hunting, American Decorative Arts

Senator DANFORTH. Mr. Smart, thank you very much. I don't think that it is appropriate to ask you questions relating to specifically how you would administer various statutes which are within the domain of your future office—the Export Administration Act, the antidumping and countervailing duty laws—but I wonder if you could share with us any general views of either administering the trade laws with respect to unfair trade practices—well, first, any general views that you might have, philosophical views almost, with respect to the administration of the laws relating to unfair trade practices, countervailing duty laws, antidumping laws, and any general philosophy that you might have with respect to the restriction of U.S. exports.

Mr. SMART. The question you did not ask, Senator, I was prepared to answer with one word: We will enforce them vigorously.

As far as philosophy goes, while I have not been in the game, if you will, of administering those laws, I feel that it is very important that they do provide an opportunity for us to preserve both a free and a fair trading environment for the U.S. industries in world markets, both as we export and as we compete with those who would import into the United States.

I think the world has changed considerably since the 1950's and 1960's when I started in business. In those days, almost every U.S. industry was preeminent in its markets in the world. On a basis of comparative advantage in today's international climate, there is no way that all of our industries can remain preeminent. And I think the laws that we have are intended to make it possible for those industries to readjust appropriately while preserving our national security and allowing an orderly pace of redeployment of assets and redeployment of workers into places where we can be very successful in the future.

I think we also need to promote exports, not only based on the competitiveness of American industry but by assuring that when they go into overseas market, they do so under conditions that are favorable to their efforts.

Senator DANFORTH. Some people in the Senate feel that there are those in the administration who are highly ideological in their view of international trade. They are free traders to a fault. They see the specter of protectionism in every corner; they view enforcing the law as protectionists. They would say that any efforts to impose sanctions against another country to offset subsidies by another country is protectionist and will get us into a trade war. Do you have any general views of trade policy that are so ideological that they would prevent you from taking a realistic case-by-case view of the situation?

Mr. SMART. I suspect that in any large group of people, Senator, including the administration and perhaps other branches of the Government, there are diversities of view. I think that is a useful input to those of us who are at the center of any particular action.

As a businessman, I don't think I could have survived by being ideological to a fault, if you will, about anything except perhaps integrity. And I think that pragmatism is essential here. I think cases do vary one from another. And to apply some overall rule without judgment to every case will clearly not come up with the

optimum solution. Yes, sir, I think I can be pragmatic without changing my habits of many years.

Senator DANFORTH. Do you believe that the international trading system today is working?

Mr. SMART. There would seem to be a drift toward protectionism. I was thinking of how to state this as an analogy. There is a little bit of a clashing of gears here and perhaps the potential for those gears freezing for lack of lubrication in the system. The multinational arrangements that we have, and most particularly the GATT, in my opinion, in due course need to be strengthened and improved. In fact, the quicker the sooner.

I think it is working but less well than it should work.

Senator DANFORTH. Well, do you think it is fair right? Do you think it is operating in a fashion which is fair to the United States?

Mr. SMART. Clearly, there are countries that have barriers that are unfair to the United States that have not been resolved or perhaps cannot be resolved under the GATT as it now exists.

Senator DANFORTH. Your predecessor was deeply involved in the question of the Japanese market. He went to Japan, I don't know how many times in various negotiations. Do you have any suggestions as to how we can gain greater access to the Japanese markets?

Mr. SMART. I accompanied him on his last trip and observed the so-called MOSS process, particularly in the telecommunications area, which was assigned to the Commerce Department to negotiate. And it was my impression from that that the progress is at the moment slow and has been entirely in the area of removal of nontariff trade barriers as yet to be validated in its significance by increased sales.

I think we must keep poking there and other places on a specific obstacle by specific obstacle-type method of breaking down of trade barriers. We need to keep putting pressure on an overall basis on trading partners that are not giving us equal access. But I must say, Senator, I was struck by the lack of leverage that, in a formal sense, we have in those negotiations.

Senator DANFORTH. Well, you do have a lack of leverage. That is why Senator Chafee has one view with respect—one approach with respect to the telecommunications problem, one legislative option. And I have a different kind of legislative option. But both of us feel that right now we don't have the leverage that is necessary to open up that market.

Mr. SMART. Senator, I can sympathize with the frustration of the Congress on that particular issue. I think it is shared widely within American industry.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Unfortunately, I have an amendment coming up on this imputed interest so I will not be able to stay. But I came down especially because I am interested in the area Mr. Smart will be getting into. And, first of all, I welcome you here.

Mr. SMART. Thank you.

Senator CHAFEE. And I am glad you are undertaking this challenge.

Let me ask you this—and I may be repeating a question that the chairman asked: We have got to be careful how many voices we speak with in this international trade situation—and my question is: What are going to be your relations vis-a-vis the STR? How do you see it?

Mr. SMART. I think it is very important that there be a very close relationship between the Department of Commerce and the Special Trade Representative. I have had several meetings with Mr. Yeutter. I feel very comfortable with him as a person and with his views. He has the lead responsibility for trade policy within the administration. I think we have some of the resources that can contribute to the formation of that policy. And it is my intention to work as hand in glove with the USTR in the formation and the implementation of a single voice policy.

Senator CHAFEE. But you did say this. You said that he has the lead.

Mr. SMART. I believe by statute that he does, yes, sir.

Senator CHAFEE. I think it not only has to be by statute, but I think it has to be recognized. Not that he knows more about it than you do. We are not implying that, although he has had considerable experience. But somebody has got to be in charge, as you well know from your experience. We just cannot have everybody running off doing their own thing. And I would hope that you would look on him as, in this particular area, first among equals.

Mr. SMART. There are certainly a lot of people, a lot of departments of the Government, that have an interest, and a justified interest, in one aspect or another of trade. My theory is that he has to be the lead player in that, and first among equals is a good way to put it.

Senator CHAFEE. Let me ask you a little bit more. You can judge from the questions of the chairman and from your meetings with us as individuals, that I suppose the greatest concern we have is about Japan and our relationships with Japan, more so than Canada or the other trading partners. And you indicated in your answer to the chairman that you felt we did not have enough leverage. It seems so odd that we don't have leverage, when they need us in this instance a lot more than we need them. They are selling—what is the deficit, the trade deficit now with Japan a year?

Mr. SMART. $37 billion.

Senator CHAFEE. $37 billion. And we are the primary market for their overseas sales of automobiles, everything: electronics, telecommunications. And somehow it seems so ironic that our people should suggest that we are without recourse to do anything. What do you think we ought to do? What should we give you?

Mr. SMART. In that sense, of course, I am sure you are aware, Senator, that there are differences of opinion within the Japanese society, and that the Prime Minister and others appear to understand that their $37 billion advantage—or, more accurately, all of their exports to us—are in some jeopardy if the problem is not resolved or at least ameliorated.

I think it would be premature for me to try to be specific as to what further advantages or levers we might need should we be unable through the current process to persuade them to liberalize

adequately. Incidently, we do feel it is a positive sign that they have just in the last 2 days indicated a relaxation of tariffs. And while tariffs are not the principal problem with Japan, we are hopeful that that is a sign that their package, so-called, later in the month will be helpful in getting some of these barriers down.

Senator CHAFEE. But I think you yourself indicated that tariffs aren't the problem.

Mr. SMART. That is correct.

Senator CHAFEE. It is the nontariff trade barriers, the access to the market is the difficulty.

Well, as you know from our personal meeting, and I am sure that the other members of the committee and Senate as well said the same thing to you, that whereas there may be a difference, some seek here a balance of trade with Japan. I don't seek that. I seek access for our products. And if we can sell them, three cheers, and if we cannot, we had better do something different. But we ought to have an opportunity to sell there and that is the problem. Where we are clearly superior in some products, we don't seem to have the access. Partly, I suppose, it is due to our own fault in salesmanship and so forth. But clearly partly it is due to what they are doing. And anything you can do to reduce that would be welcome.

But also I think you ought to come back to this committee and ask for help. We are thrashing around trying to determine what to do. And we are trying to tell a reluctant government what to do. I am not sure that this concern is as evident in the administration as it is in the Congress.

Mr. SMART. Senator, I thank you for the offer of help. We will need it and we will be back.

Senator CHAFEE. Thank you. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Smart, I think we have a great deal of leverage and I think we ought to use it. And when you speak of Japan, I notice that your predecessor said about a third of our trade deficit with Japan resulted from nontariff barriers. No question. Most of it comes from the imbalance on the dollar and the yen. Most of that is our fault.

But there are other things. Even if we return to an even playing field insofar as currency exchange, we still are going to have a substantial problem in our trade with Japan. Japan is becoming the role model for a lot of the lesser developed countries, compounding the problem for us. Japan also has probably the best—well, amongst the best—PR programs in this country here in Washington. They do a marvelous job on PR. Any time you question anything with Japan you are immediately charged with Jap bashing. This is a nice term the press likes to use.

They have also hired most of the good lawyers, or a lot of them anyway, to lobby for them. So they are a tough act, and they are able, and they are smart, and they are excellent negotiators, and they just wait for fellows like you to go away. And then they argue with your successor.

Let me read you a letter here, and I would like to have your reaction to it, because it came from a constituent of mine. He talks

about his company, which is the A. Brandt Co. He has been a furniture manufacturer since 1900 and is presently employing 1,200 people in Texas and Arkansas. Then he goes on in his letter to say the market in furniture is soft, and the weak market is compounded by imports from abroad, selling at a very low cost. And he says that he wrote to the Department of Commerce and asked for their help.

He says, "I urge you to pay particular attention to paragraph 4 of the U.S. Department of Commerce letter which states, in part, 'If U.S. producers are to compete successfully at home and abroad they must adapt their production and marketing to meet the economic challenges of their competition. In some cases'"—and I want you to carefully listen to this—"'In some cases, this necessitates adjustments, such as the transfer of manufacturing facilities to foreign countries where production cost, primarily labor, may be less expensive.'" How does that grab you? Do you endorse that kind of a statement?

Mr. SMART. Senator, I think it is perhaps going too far to appear to urge the transfer of manufacture offshore.

Senator BENTSEN. Perhaps?

Mr. SMART. It is also true that many industries are faced with a choice of either manufacturing components or a product outside of the United States or surrendering the market entirely to foreign competitors. And I think it is better that the Commerce Department find ways to assist U.S. business in solving the problem domestically than suggesting an offshore resolution of it.

Senator BENTSEN. That is right, Mr. Smart. But this letter has the signature of Mr. Timothy J. Hauser, the Director of the Office of Multilateral Affairs in the International Trade Administration, which I suppose will be under your supervision.

Mr. SMART. Yes, sir. He is a very capable member of the Commerce Department.

Senator BENTSEN. Well he may have been capable, but he sure lacked judgment on that instance, in my opinion.

Mr. SMART. I will make a note of it and visit with him on it.

Senator BENTSEN. Now on the trade information gap—and we have a substantial one, again with the Japanese—both this country and the Japanese collect data on inputs and outputs of the various industries in each country. Now this input and output data tell us where our strength and where our weaknesses lie and what we ought to try to do in future negotiations.

The Japanese table for 1984 is, I am told, available now. The most recent U.S. table available is for 1977. The General Accounting Office reported last year that laws designed to provide the Government with information it needs to formulate trade policies are not being carried out, such as the Paperwork Reduction Act.

Would you be willing to work on the various data systems in the Department of Commerce and report to this committee whether they are adequate for today's trade information needs? And if not, what we ought to do about it?

Mr. SMART. Senator, I think that a very important role of the Department of Commerce is to be the repository of statistics, the keeping of them in useable form, and making them available to all in Government and elsewhere that need them.

Senator BENTSEN. 1977 is not very current, sir.

Mr. SMART. Yes, sir; I understand that. And I am recently with the Department of Commerce. This is a specific problem that I have not been aware of until now, and I will certainly look into it. It has been in my objectives to make sure that we are doing a good job generally in statistics.

Senator BENTSEN. Not only look into it, you will try to bring them a little more current than 8 years, would you not?

Mr. SMART. I think they are probably a little bit dead if they are 8 years old.

Senator BENTSEN. Yes. Thank you.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Smart, you are a businessman. A lot of trade people in town think that there are too few businessmen involved in trade negotiations with foreign countries. If you look beyond the Cabinet at the senior relevant executive department officials in this administration, few of them have lengthy, direct business experience. They may be bureaucrats, academicians, lawyers, or financial types rather than hardened businessmen. Your background is as a businessman, and your Department will be charged with promoting American exports. What have you learned as a businessman that you can bring to bear in your new job so that the U.S. companies, through your office, can export much better?

Mr. SMART. I think the first answer to that question, Senator, is that I have had experience with many, many of the industries that are logical export industries. My own particularly included the forest products business—pulp and paper as well as lumber—and we have been involved in that. I have had experience with negotiating licenses with foreign countries—companies in foreign countries, and therefore the technology transfer problem is to some extent familiar.

I think the thing that I can probably bring that is different from what others could bring is, first of all, a dialog with the industries affected, a knowledge of the problems that they are facing, an ability to separate what are real complaints from what are perhaps coverups for weaknesses elsewhere.

Senator BAUCUS. What is the biggest real problem that American business has in promoting exports?

Mr. SMART. In promoting exports?

Senator BAUCUS. Yes; or our biggest problem with the Department of Commerce in securing the aid of the Department of Commerce so that businesses can export more.

Mr. SMART. The larger businesses need the help of the Department of Commerce, and for that matter, of the Government as a whole in reducing barriers to trade in other countries. They are fairly well equipped to actually go forward and promote their own products if the playing field is reasonable. Smaller businesses, I think, need to be introduced to the concept of exporting. And I believe our U.S. and Foreign Commercial Service organization has been upgraded substantially in the last several years to help them in doing that.

Senator BAUCUS. But more specifically though, what are some of the problems businesses have had with the Department of Com-

merce in as opposed to USTR or other Government agencies? And, except for the Department of Commerce, what is the biggest problem that business has had in efforts to expand exports?

Mr. SMART. Senator, for some reason, nobody of my friends in business has come and complained to me specifically about a particular failing of the Department of Commerce with the possible exception of the speed with which licenses are granted for exports, and that we have made remarkable progress on in the last couple of years.

I will look into it and find out if there are places that we are not doing well, but none come to mind at the moment.

Senator BAUCUS. Returning to your background in the forest products industry, how do you think we get Japan to lower their tariffs on processed forest products?

Mr. SMART. I think it is going to be hard. The forest products industry is extremely well entrenched in Japan politically. They control, or at least influence, a large number of members of the Diet. And so far, the efforts of that sector of the MOSS talks have been highly unsuccessful. Now they are reducing tariffs on pulp and paper in this letter that has just come out, I understand, by 20 percent, which is helpful but not adequate to get it there. I suspect continued pressure is necessary and will be difficult to make effective.

Senator BAUCUS. Why did you take this job?

Mr. SMART. I had a window in my life that was available to do something different with, and I looked around for where it might be usefully employed, and I couldn't think of a place where it might be more difficult and more exciting to work. And when Secretary Baldrige and the White House offered me the opportunity, I jumped at it.

Senator BAUCUS. I think you are probably right. It would be hard to find a more difficult job than you are now going to have. I wish you luck. Thank you.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Yes, Mr. Chairman. Mr. Smart, we welcome you to the committee and we think much of you. We are in a mood to be concerned about the problems of international trade and there is no reason not to. There are problems, as many self-inflicted as otherwise I tend to think. But I wonder if I could ask you about something that has not received a great deal of attention: international trade in energy between the United States and Canada. Canada has become a major source of hydroelectric power to the United States. Los Angeles is purchasing—and I wonder if our distinguished chairman would hear this—hydroelectric power from Canada. I thought the chairman would be interested to know that Los Angeles has entered a long-term contract for hydroelectric power from Canada at 2 cents a kilowatt, half the price of fossil-fuel-generated power. We are getting Canadian power from British Columbia all the way over to Quebec and possibly up into the Maritime Provinces.

I understand there is great potential in this; five times as much permanent hydroelectric power could be bought from Canada then we now do, and almost all of it would replace oil, which we now import.

The Quebec project is going to be one of—I think it may be the largest hydroelectric power installation in the world, and it is coming on line in about 2 year's time.

Have you been briefed on that, sir?

Mr. SMART. Senator, I know about it only in the most general way. I did know that we were buying natural gas for Los Angeles from Canada. I did not know we were buying electric power.

Senator MOYNIHAN. Hydroelectric power.

Mr. SMART. Yes, sir.

Senator MOYNIHAN. Long distance transmission has finally become technologically possible. I think the Swedish technology went to that. I think it is Swedish. I am not sure.

I wonder if I could ask you just as a friendly question if you could have the Department of Commerce look into the present purchase of power, hydroelectric power, from Canada, the contract that seems in prospect, and what the potential might be? Because this could turn out to be one of the most important elements of international trade the United States ever really engaged in on a long-term basis.

Mr. SMART. I think it is a very interesting subject, and we will look into it and I will get back to you.

Senator MOYNIHAN. Because there is nothing neater or cheaper or cleaner than good hydroelectric power. And all those rivers flow north, so they will not significantly warm up the seas they flow into.

Mr. SMART. Senator, it is renewable, and clean, and excellent, and we will take a look.

Senator MOYNIHAN. Thank you very much. And welcome and congratulations, sir.

Mr. SMART. Thank you very much, sir.

Senator DANFORTH. Mr. Smart, thank you very much. Congratulations to you.

Senator BENTSEN. Let me say, Mr. Chairman, I was impressed with his answers, and I really appreciate the reason you had taken on this job.

Mr. SMART. Gentlemen, it has been a great pleasure to visit with you, both individually and as a group, and I look forward to seeing a lot more of you, your colleagues willing, when it comes time to testify.

Senator DANFORTH. I would like to ask you one more short question. Can you be as mean as a junk yard dog? [Laughter.]

Mr. SMART. It is going to be awful hard, Senator, but I will try.

Senator DANFORTH. Thank you, sir. Good luck.

[Whereupon, at 9:36 a.m., the hearing was concluded.]

[By direction of the chairman, the following communications were made a part of the hearing record:]

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

22 JUL 1985

Honorable Lloyd Bentsen
United States Senate
Washington, D.C. 20510

Dear Senator Bentsen:

During my confirmation hearing on June 26, 1985, you raised the issue of delays in U.S. publication of input-output (I-O) data relative to Japanese publication of their I-O data. To follow up on your question, I have checked with the Under Secretary of Commerce for Economic Affairs, who has responsibility for publication of these materials.

The Bureau of Economic Analysis (BEA) within the Department of Commerce compiles comprehensive benchmark I-O tables once every 5 years, using primarily data from the economic census conducted by the Bureau of the Census every 5 years. BEA obtained the most recent census data (1977) in mid-1981; it completed compiling and publishing the 1977 I-O tables in July, 1984.

BEA also publishes summary I-O tables updating the benchmark tables. The first update of the 1977 I-O table, covering 1980, is scheduled for publication in late summer 1985. BEA anticipates that as it reduces the backlog of work resulting from preparation of the 1977 benchmark tables, the lag between the reference year and the annual updates will decline.

Japan's I-O publication program is similar to ours in that it consists of benchmark tables with annual updates, based on economic census data collected every 5 years. Japan's most recent benchmark I-O table, covering 1980, was published in 1984. It's latest annual summary covers 1982.

Differences in the U.S. and Japanese publication schedules result from several factors. First, in Japan the major source data are more quickly available, and they are tabulated by the collecting agency in the format needed for the I-O tables. Since, in the United States, this work is done at BEA, about one year is added to the compilation process. Moreover, in Japan more than 100 persons work on the detailed tables, whereas approximately 20 people in BEA work on similar tables. BEA is working to speed up its publication schedules for both the benchmark and summary update I-O tables, and in this effort has made major changes to its computer systems.

I hope that this information is helpful.

Sincerely,

Bruce Smart

S. Bruce Smart
Under Secretary-designate

bcc: Honorable Bob Packwood
Chairman, Committee on Finance

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

22 JUL 1985

Honorable Daniel P. Moynihan
United States Senate
Washington, D.C. 20515

Dear Senator Moynihan:

During my confirmation hearing on June 26, 1985, you raised the issue of Canadian sales of hydroelectric power to the United States, particularly sales of hydroelectric power to Los Angeles.

Ensuring supplies of reliable, environmentally safe, and inexpensive electricity is critical to our economic well-being. The ability of our industries to compete in the international marketplace depends on our success in obtaining such supplies. Canadian hydropower appears to be an excellent source of low-cost electricity.

I understand that the Senate Energy Committee will be holding hearings later this month on the outlook for electric power in the United States. These hearings should provide a useful forum for addressing the many interrelated issues related to importation of Canadian electric power, including the impact on U.S. coal production and employment, sales of U.S. power generating equipment, and reliance on foreign sources of power.

I am told that the sale of Canadian hydroelectricity to Los Angeles is currently uncertain. British Columbia Hydroelectric has substantial hydroelectric power resources and has signed a contract to supply electricity to four California cities. The Bonneville Power Authority (BPA), which would have to transmit this electricity to the California cities, thus far has not done so because it has excess electricity of its own.

As more information on the many issues surrounding importation of Canadian electric power and its impact on various parts of the U.S. economy becomes available, I would be happy to discuss this subject with you further.

Sincerely,

Bruce Smart

S. Bruce Smart
Under Secretary-designate

bcc: Honorable Bob Packwood
Chairman, Committee on Finance

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